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FISCAL IMPACT STATEMENT

LS 6903

BILL NUMBER: SB 355

NOTE PREPARED: Jan 17, 2021

BILL AMENDED:

SUBJECT: Child and Dependent Care Tax Credit.

FIRST AUTHOR: Sen. Yoder

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill provides a refundable child and dependent care tax credit to taxpayers whose adjusted gross income for the taxable year is not more than 250% of the federal poverty level. It provides that the credit is equal to the lesser of: (1) an amount ranging from \$200 to \$1,000, depending on the extent to which the taxpayer's adjusted gross income exceeds the federal poverty level; or (2) 20% of the taxpayer's employment related expenses.

Effective Date: January 1, 2021 (retroactive).

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise tax forms, instructions, and computer programs to enact the provisions in the bill. The DOR may also may adopt rules to implement the provisions of the bill and may require a taxpayer to apply for the credit using a form designated by the agency. The DOR's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: *Summary:* The bill creates a refundable state income tax credit for individuals claiming the federal child and dependent care tax credit. The tax credit will reduce the tax liability for individual taxpayers starting in tax year 2021. It would reduce state General Fund revenues between \$97 M and \$390 M annually beginning FY 2022.

Additional Information: This credit uses the same criteria as the federal tax credit to determine who is a qualifying individual and what employment-related expenses are eligible, but the amount of the credit is determined differently from the federal credit. The credit amount is equal to 20% of the employment related expenses, capped at amounts ranging from \$200 to \$1,000, depending on where a taxpayer's adjusted gross

income falls in relation to five income brackets based upon the federal poverty level (FPL). The bill sets the brackets as follows:

- 20% of expenses, up to \$1,000, for taxpayers earning no more than 185% of the FPL
- 20% of expenses, up to \$800, for taxpayers earning more than 185% but no more than 201% of the FPL
- 20% of expenses, up to \$600, for taxpayers earning more than 201% but no more than 217% of the FPL
- 20% of expenses, up to \$400, for taxpayers earning more than 217% but no more than 233% of the FPL
- 20% of expenses, up to \$200, for taxpayers earning more than 233% but no more than 250% of the FPL

Taxpayers with an adjusted gross income greater than 250% of the FPL may not claim the tax credit even if they have claimed the federal tax credit. The annual FPL is published by the Department of Health and Human Services and varies depending upon number of persons in a family or household.

The revenue loss estimate for this bill is based on 2018 data from the DOR and the Internal Revenue Service. Both data sources show that around 450,000 taxpayers may be eligible to claim the credit. The lower bound estimate allows for some taxpayers to claim less than the credit limit for which they are eligible. The upper bound estimate assumes taxpayers claim the maximum amount credit for which they may be eligible as provided by the bill.

Federal Child and Dependent Care Tax Credit—A taxpayer who utilizes a daycare center, babysitter, summer camp, or other care provider to care for a qualifying child under age 13 or a disabled dependent of any age, may qualify for a tax credit of up to 35% of qualifying expenses of \$3,000 for one child or dependent, or up to \$6,000 for two or more children or dependents.

The taxpayer must meet several criteria to qualify for the federal child and dependent care credit. The taxpayer must meet all of the following criteria:

- (1) The taxpayer and their spouse, if filing jointly, must have earned income for the tax year.
- (2) The taxpayer must be the custodial parent or main caretaker of the child or dependent.
- (3) The child or dependent care service must have been used so that the taxpayer could remain employed or look for employment.
- (4) The taxpayer's filing status must be single, head of household, qualifying widow or widower with a qualifying child, or married filing jointly.
- (5) The taxpayer's child or dependent must be under 13 or must be disabled and physically or mentally incapable of caring for themselves.
- (6) The care provider cannot be the taxpayer's spouse or dependent, or the child's parent.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: LSA Income Tax Database; Internal Revenue Service, Statistics of Income Tax Stats - Historic Table 2: State Data Tax Year 2018; Publication 503 (2019), Child and Dependent Care Expenses, <https://www.irs.gov/publications/p503>.

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